

## Supplementary material to the paper “Network formation with non-symmetric players and chance moves” by Ping Sun and Elena Parilina (Numerical example)

Let the set of players be  $N \cup \{0\}$ , where  $N = \{1, 2, 3\}$ , and player 0 is the Nature. The values of characteristic function are  $v(\{1\}) = 1$ ,  $v(\{2\}) = v(\{1, 2\}) = 2$ ,  $v(\{3\}) = 1/2$ ,  $v(\{2, 3\}) = 5/2$ ,  $v(\{1, 3\}) = v(\{1, 2, 3\}) = 3$ . The strategy set of the leader is  $U_0 = \{\Gamma_1, \Gamma_2, \Gamma_3\}$ , where  $\Gamma_1 = \{12, 13\}$ ,  $\Gamma_2 = \{12, 23\}$ ,  $\Gamma_3 = \{13, 23\}$ , the structures of which are shown in Fig. 1. And  $T = \{I_1, I_2\}$ . The payoff function for players of type  $I_1$  is defined as

$$K_i(\Gamma, I_1) = Y_i(\Gamma) + |\Gamma(i)|, \quad (1)$$

where  $Y_i(\Gamma)$  is a component of Myerson value (see Myerson (1977)), and for players of type  $I_2$ , it is defined as

$$K_i(\Gamma, I_2) = AT_i(\Gamma_{C^{\Gamma(i)}}) \quad (2)$$

where  $AT_i(\Gamma_{C^{\Gamma(i)}})$  is the average tree solution value (see Herings et al. (2008)) of Player  $i$  in game  $v_{C^{\Gamma(i)}}$  with structure  $\Gamma_{C^{\Gamma(i)}}$ .

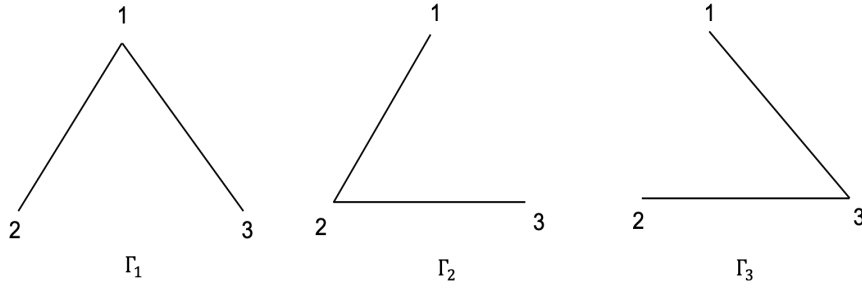


Figure 1: Network structures of  $\Gamma_1$ ,  $\Gamma_2$  and  $\Gamma_3$ .

The probability distribution  $p$  is given in Table 1. Let Player 1 be defined as the leader, and his fixed type,  $I'$  be  $I_2$ .

Types Probability	Players			
		Player 1	Player 2	Player 3
2/21		$I_1$	$I_1$	$I_1$
4/21		$I_1$	$I_1$	$I_2$
3/21		$I_1$	$I_2$	$I_1$
2/21		$I_1$	$I_2$	$I_2$
4/21		$I_2$	$I_1$	$I_1$
3/21		$I_2$	$I_1$	$I_2$
2/21		$I_2$	$I_2$	$I_1$
1/21		$I_2$	$I_2$	$I_2$

Table 1: Probability distribution defining the chance move.

Given Table 1, the conditional probability distribution with Player 1 being the leader is shown in Table 2.

$t_2 \backslash t_3$	$I_1$	$I_2$
$I_1$	$2/5$	$3/10$
$I_2$	$1/5$	$1/10$

Table 2: Conditional probability distribution  $p(\cdot \mid t_1 = I_2)$ .

Fig. 2-4 show the subgames  $\Phi(x_{I_1})$ ,  $\Phi(x_{I_2})$  and  $\Phi(x_{I_3})$  respectively. Moreover, the black lines starting from the personal vertices of Player 2 and Player 3 show the unique Bayesian equilibrium in each subgame, and the black lines of different lengths starting from the vertices at which the Nature makes the chance move show the various probabilities with which the Nature selects for different type profiles. Note that Fig. 2-4 are obtained by software Gambit (see McKelvey et al. (2006)). The program which is used to calculate the Bayesian equilibrium of any subgame in the example can be asked from the authors.

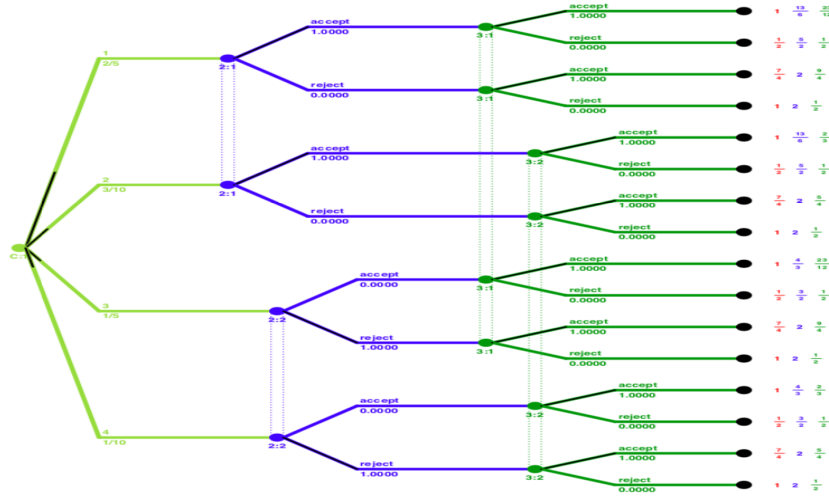


Figure 2: Subgame  $\Phi(x_{I_1})$  with Player 1 as the leader.

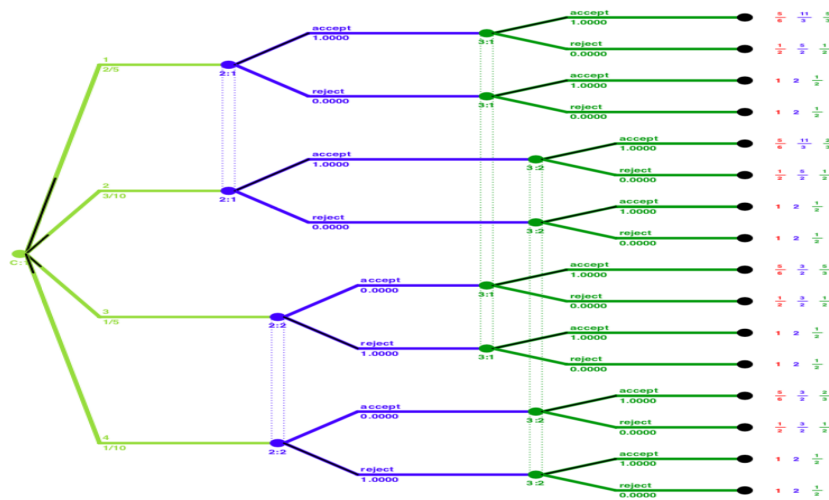


Figure 3: Subgame  $\Phi(x_{I_2})$  with Player 1 as the leader.

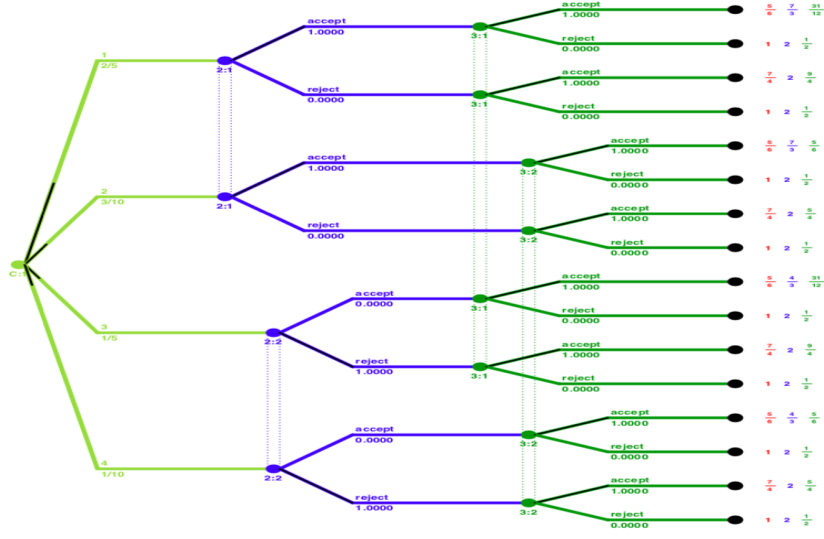


Figure 4: Subgame  $\Phi(x_{\Gamma_3})$  with Player 1 as the leader.

From Fig. 2-4, we can see that in subgame  $\Phi(x_{\Gamma_1})$ , under the Bayesian equilibrium, Player 2 of type  $I_1$  will choose 'a' with probability 1, choose 'r' when he is of type  $I_2$ , and for Player 3 of type either  $I_1$  or  $I_2$ , he will choose 'a' with probability 1. Similar conclusion can be obtained for both subgames  $\Phi(x_{\Gamma_2})$  and  $\Phi(x_{\Gamma_3})$ .

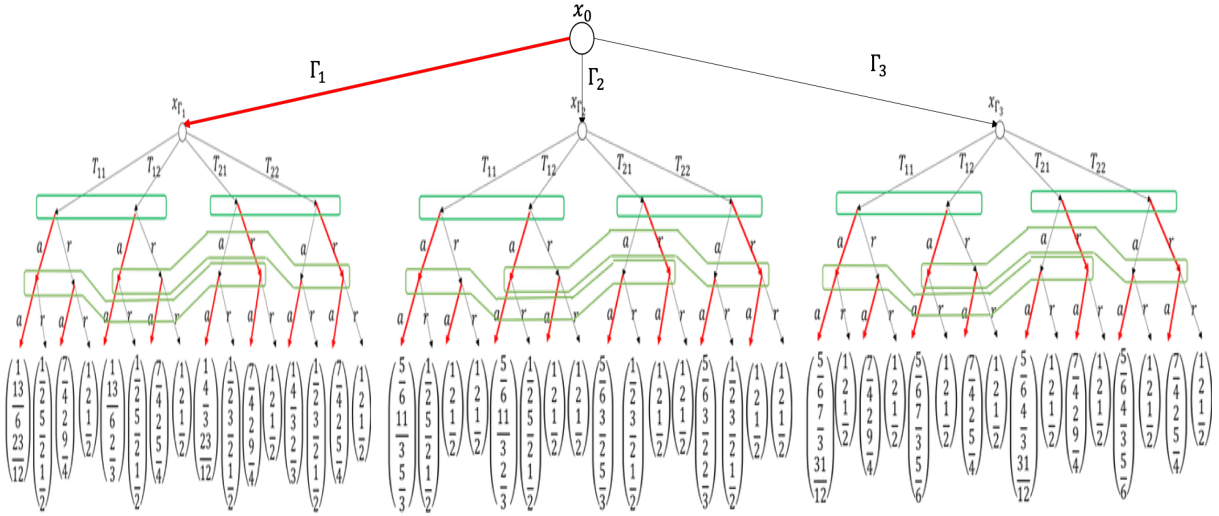


Figure 5: Extensive game  $\Phi$ .

Finally, three different expected payoff vectors given various strategies of the leader can be calculated after we get the Bayesian equilibrium in each subgame. Specifically, we get  $G(b^1) = (49/40, 127/60, 37/24)$ , where  $b^1 = (1, 0, 0)$  under which  $\Gamma_1$  is chosen with probability 1,  $G(b^2) = (53/60, 19/6, 61/60)$ , where  $b^2 = (0, 1, 0)$  under which  $\Gamma_2$  is chosen with probability 1, and  $G(b^3) = (133/120, 67/30, 223/120)$ , where  $b^3 = (0, 0, 1)$  under which  $\Gamma_3$  is chosen with probability 1. Thus, behavior strategy profile  $b^1$ , where  $(b^1)_{\Gamma_1}^1$ ,  $(b^1)_{\Gamma_2}^1$  and  $(b^1)_{\Gamma_3}^1$  are the Bayesian equilibria in the corresponding subgames, is the unique stable partially Bayesian equilibrium, also a Nash equilibrium in the game. And  $(49/40, 127/60, 37/24)$  is the expected payoff vector under the stable partially Bayesian equilibrium. Fig.

5 shows the whole extensive game  $\Phi$ , and all red lines compose the unique stable partially Bayesian equilibrium.

## References

- Herings, P.J.J., Van Der Laan, G., Talman, D., 2008. The average tree solution for cycle-free graph games. *Games and Economic Behavior* 62(1), 77-92.
- McKelvey, R.D., McLennan, A.M., Turocy, T.L., 2006. Gambit: Software tools for game theory, <http://www.gambit-project.org>.
- Myerson, R.B., 1977. Graphs and cooperation in games. *Mathematics of operations research* 2(3), 225-229.